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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002340

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SUBJECT: SEF CHAIRMAN HONG ON HU SPEECH, CROSS-STRAIT  
RELATIONS, AND DOMESTIC POLITICS

REF: TAIPEI 02014

Classified By: AIT Acting Director Robert S. Wang, Reason 1.4 (b/d)

¶1. (C) Summary: SEF Chairman Hong told the Acting Director on October 16 that Chinese President Hu Jintao showed "moderation" and "restraint" in his remarks on Taiwan at the Party Congress given recent tensions across the Strait. Hong emphasized that the "peace agreement" overture was a positive step indicating that Beijing could show some flexibility in future (post-May 2008) interactions with Taipei. Hu's comments, however, were unlikely to lead to a breakthrough in the discussions on opening Taiwan further to mainland tourists and regularizing cross-Strait charter and cargo flights. Hong asserted, moreover, that Beijing does not want to give President Chen the opportunity to "take any credit" for improving cross-Strait relations. Turning to domestic politics, Hong said President Chen's return to the DPP Chairmanship bodes well for Frank Hsieh's presidential prospects as Chen will dampen deep Green rhetoric and help mend party divisions. End Summary.

Positive on Hu Jintao Speech...

¶2. (C) Straits Exchange Foundation (SEF) Chairman Hong Chi-chang, a heavyweight legislator and former DPP New Tide faction leader, told Acting Director Wang on October 16 that Chinese President Hu Jintao showed "moderation" and "restraint" in his remarks on Taiwan at the Party Congress given recent tensions across the Strait. Hong emphasized that the "peace agreement" overture was a positive step indicating that Beijing could show some flexibility in future interactions with Taipei. The key to reaching any long-term accommodation between the two sides remains the question of Taiwan's international status. Reaching any agreement on such an issue will be a long and drawn-out process and the two sides must begin by reaching a consensus on establishing a mechanism for discussing the issue. He noted, however, that no party here accepts the model of "one country, two systems." Despite Hu's moderate tone, Hong said that Taipei can't react too positively to the message in order to preserve its current bargaining position with Beijing.

¶3. (C) Hong explained that within the DPP there are two competing interpretations of Hu's recent comments and his

decision not to criticize the UN referendum drive in the speech. Some view the absence of any references to the UN referendum as a green light to press the initiative to build momentum and set the political agenda going into the legislative and presidential elections. Others, including Hong, see Hu's moderation as evidence that the UN referendum initiative has helped push the envelope and created greater space for Taiwan. Perhaps now, with Taipei holding a referendum bargaining chip, Beijing will be more willing to engage Taiwan in discussions and reach a compromise down the road, Hong suggested.

#### But Pessimistic on Near-term Cross-Strait Relations

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14. (C) Hong told the Acting Director that Hu's comments were unlikely to lead to a near-term breakthrough in the discussions on opening Taiwan further to mainland tourists and regularizing cross-Strait charter and cargo flights. Taipei and Beijing, through their discussions held in Macau, had largely ironed out the technical and implementation aspects of those issues. There are "no differences" between Taipei and Beijing on the substance, Hong emphasized. The real sticking point, Hong asserted, is that Beijing did not want to give President Chen the opportunity to "take any credit" for improving cross-Strait relations, especially after his recent statements, including the "four wants and one without" speech early this year. Hence, a final agreement is unlikely during the remainder of Chen's term.

15. (C) Hong said that Beijing had deliberately halted progress by raising last-minute conditions that ensured failure of the discussions on the Olympic torch route. The

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Taiwan side showed flexibility, did not insist that the torch pass from and to a third country, and accepted Beijing's designation of Taipei as one of the 22 "overseas cities" even though Hong Kong and Macau received the same designation. Beijing, however, made the last-minute demand that the ROC flag could not be displayed along the torch route knowing full well that Taipei would be unable to accept such a condition. On this score, Beijing not Taipei was responsible for the break in negotiations, Hong insisted.

#### Presidential Race Still Too-Close to Call...

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16. (C) Turning to domestic politics, Hong told the Acting Director that the presidential race between Frank Hsieh and Ma Ying-jeou remains too close to call. Three upcoming commemorations--October 24 (UN Day), February 28, and March 14 (passage of the anti-secession law)--will give the DPP an opportunity to emphasize Taiwan identity-related themes ahead of the election. Hsieh has gotten off to a slow start and still faces the challenge of putting together a more seasoned campaign staff, while Ma and the KMT could be derailed by intra-party squabbling. Hong said President Chen's return to the DPP Chairmanship bodes well for Frank Hsieh's presidential prospects as Chen will dampen deep Green rhetoric and help mend party divisions. Chen will dilute the strength of the deep Greens within the party organization, moving the election agenda in a more moderate direction and smoothing over differences between party factions.

#### But Winner Likely to Reach out to Beijing

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17. (C) Hong expects that either Hsieh or Ma, if elected, would put priority on moderating Taiwan's cross-Strait agenda and focus on improving relations with Beijing. Even Ma, however, would be constrained from moving toward unification in the near future because Taiwan's current political climate at most allows for maintenance of the "status quo." Beijing will need to respond by giving Taiwan some international space, which would go a long way toward easing anxieties

about China's motives. Hong asserted that even the KMT can't accept Beijing's "one country, two systems" framework as a future model for Taiwan-China relations and so Beijing will ultimately need to show more flexibility and be willing to compromise. Hong said that the momentum for Taiwan independence is directly correlated with China's suppression of Taiwan's international space and status rather than the actions taken by any individual leader on Taiwan.

18. (C) Hong argued that President Chen does not have a "deep Green" agenda and is a practical politician who has responded to particular circumstances and conditions both in Taiwan and across the Strait. President Chen's only agenda is to win the upcoming election and keep the DPP in power. For example, Hong said Chen sought to reach out to Beijing in 2005 by working with PFP Chairman James Soong on a consensus plan ahead of Soong's visit to Beijing. Passage of the anti-secession law that spring, however, was a clear sign of Beijing's insincerity and forced Chen to back away from such plans. Hong emphasized that in the future Beijing will have to meet any overtures by Taiwan's next president half-way if the two sides are to begin substantive discussions to pave the way for long-lasting peace across the Strait.

WANG